

Docket No. R-1386

August 8,  
2010

To Whom It May Concern -

My name is Tom Gorman, and I'm a Managing Director of Seacoast Capital, a Small Business Investment Company ("SBIC") headquartered in Danvers, MA with an additional office in San Francisco, CA. Seacoast primarily invests equity and subordinated debt capital (typically \$2MM to \$5MM) in small manufacturing, distribution, and business services companies in U.S. As an SBIC fund, we are part of a program established by the Small Business Administration ("SBA") in 1958 to stimulate investment in small businesses across the United States. Since our formation in 1994, we have invested over \$220 million in 54 companies located in 22 states. I'm writing today because it is my understanding that portions of the Community Reinvestment Act ("CRA") are being reviewed by banking regulators for potential amendments, and I wanted to offer some of my comments as to how significant changes to the Act could affect or possibly enhance what I believe is an important "natural" economic stimulus program in the SBIC.

The SBIC program offers fund managers with strong track records the ability to match their own privately raised capital base with debentures provided by the SBA, on an up to 3:1 basis. Because the total amount of SBA debentures that any one fund manager can draw at a given time across all of their funds is capped at \$137MM, historically SBIC funds have generally had aggregate capital amounts of \$100MM or less, with the SBA debentures accounting for a substantial portion any one fund's capital base. The private capital component of most SBIC funds has tended to range from anywhere between \$5MM and \$50MM, which is generally too small to fit the investment criteria for traditional investors in private equity - large state pension funds and college endowments. As a result, private capital investors in SBIC funds have historically been high net worth individuals, small family offices and local community and regional banks, for whom smaller commitments in the \$1-\$10MM range represent a more significant portion of their target allocation to private equity.

One of the benefits for local and regional banks to investing in SBIC funds is that they are allowed to count SBIC fund investments towards their CRA ratings. This presents a more attractive risk/return alternative to the banks' other CRA portfolio options, which have historically been low-income mortgage securities, urban housing and real estate development projects, and other high-risk, low return investments. While the social and economic benefits to these other sorts of investments are admirable, the ability of SBIC funds to create jobs, invest in historically

underdeveloped and low to moderate income areas, spur business growth in the U.S., as well as deliver attractive returns to investors is a win-win for all involved. In some of my recent discussions with our own bank investors (and potential bank investors for our third SBIC fund, which we are currently in the market raising), however, it has become clear that there is significant confusion as to whether or not banks will receive CRA credit for SBIC fund investments in the future, and if so, the mechanism by which those credits are allocated. The regulatory uncertainty has already resulted in banks questioning the validity of current and future fund commitments, and will likely cast a shadow on SBIC fund formation until the issue is resolved or at least further clarified. Some banks have even suspended new fund commitments.

As a Partner of a small SBIC fund with a significant base of bank investors, I cannot stress how important these investors are to the SBIC program. In the fund we are currently raising, existing commitments from community and regional banks represent over 50% of our private capital base to date. Suffice it to say that the loss of these investors in our fund due to discontinuance or scaling back of CRA credits for SBIC investments would be devastating. While I admittedly have an economic interest in the matter, I'd argue that with the current economic climate, the role of SBIC funds as generators of jobs and economic growth is as crucial now as ever. SBICs play an important role in filling the "capital gap" that exists between venture capitalists and buyout funds, having traditionally supported more out of favor, "brick and mortar" businesses in more rural and underdeveloped areas - small businesses that provide the majority of job and economic growth in the U.S.

As an example of the type of economic growth I'm referring to, consider Seacoast's investment in Elmet Technologies of Lewiston, ME. Elmet is a global supplier of high performance materials including molybenedum, refractory metals, wire and lighting products, primarily to the consumer electronics and medical industries. Seacoast invested \$3.4MM in 2003 to support the buyout of Elmet by management from its parent, Philips N.V. At the time of our investment, Philips was considering shuttering the plant in Lewiston and moving all of Elmet's operations to one of its foreign manufacturing facilities. Our investment enabled Elmet to keep approximately 230 jobs "onshore" at the factory in Lewiston, which was located in a federally-designated Historically Underdeveloped Business ("HUB") Zone. In addition, over the course of Seacoast's investment, Elmet's profits more than doubled.

In sum, we believe that the SBIC program is one of the most unique and powerful tools the US government has to stimulate economic growth, especially in times like this. The SBIC program is a true public/private partnership that has a strong track record of creating jobs and stewarding the small businesses that typical private equity and venture capital funds ignore. Private capital investments in SBIC funds by local and regional banks have historically been the lifeblood of the SBIC program. We would strongly recommend that any modifications to the CRA Act include language that clearly and unequivocally grants full CRA credit to any SBIC fund investments by banks, regardless of geography, and would welcome the opportunity to discuss ideas to affect this.

Please feel free to contact me at any time at (978) 750-1311.

Best,

Thomas W. Gorman